

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY
D.T.E. 97-88/97-18 (Phase II)

PANEL REBUTTAL TESTIMONY
OF
VERIZON MASSACHUSETTS

Members of the Panel:

FREDRICK K. MILLER
PETER SHEPHERD

Dated: October 16, 2001

1 **Q. WHAT IS THE PURPOSE OF THIS PANEL REBUTTAL TESTIMONY?**

2 A. The purpose of this testimony is to address arguments raised in the Further Testimony of
3 Mr. Don J. Wood on behalf of the New England Public Communications Council
4 (“NEPCC”), filed on September 27, 2001, and subsequently updated on October 4,
5 2001, in this proceeding. Specifically, this testimony rebuts Mr. Wood’s assertions that
6 Verizon Massachusetts (“Verizon MA”) has not provided the requisite TSLRIC study.
7 It also addresses Mr. Wood’s claim that Verizon MA’s intrastate tariff rates for
8 payphone lines, features and usage, which were previously approved by the
9 Department, are not cost-based and do not comply with the Department’s Orders
10 dated November 28, 2000, and August 8, 2001, in this proceeding and the
11 requirements of the Federal Communications Commission (“FCC”), including its “new
12 services” test, as set forth in its *Payphone Orders*.

13
14 **Q. PLEASE IDENTIFY THE WITNESS PANEL.**

15 A. The members of this panel are Mr. Fredrick K. Miller and Mr. Peter Shepherd. The
16 educational and professional background and experience of Mr. Miller and Mr.
17 Shepherd have been described in prior testimony in this proceeding.

18
19 **I. METHODOLOGY FOR TSLRIC PAYPHONE LOOP STUDIES**

1 **Q. MR. WOOD ASSERTS THAT VERIZON MA HAS NOT PERFORMED**
2 **THE REQUISITE COST STUDIES ORDERED BY THE DEPARTMENT**
3 **AND THAT ITS PAYPHONE TSLRIC STUDIES DO NOT INCLUDE COST**
4 **DATA NECESSARY FOR THE DEPARTMENT TO DETERMINE IF**
5 **EXISTING RATES FOR PAYPHONE SERVICE ARE COST-BASED AND**
6 **IN COMPLIANCE WITH THE FCC’S NEW SERVICES TEST. DO YOU**
7 **AGREE WITH MR. WOOD’S ASSERTIONS?**

8 A. No. Contrary to Mr. Wood’s claims, Verizon MA’s cost studies were developed in
9 accordance with Department approved methodologies and comply fully with federal
10 requirements under the FCC new services test.

11 The Department’s *November 28th Order* clearly “directs Verizon to file a
12 comprehensive TSLRIC study, complete with supporting documentation, for *basic*
13 *payphone access lines.*” *See November 28th Order*, at 17 (emphasis added). The
14 Department further required Verizon MA to submit a cost-to-rate ratio analysis of
15 overheads, along with TSLRIC study supporting documentation for payphone features
16 and functions, to determine whether the costs to provide payphone services to
17 payphone providers differed from the costs to serve other business customers. *Id.* at
18 16-17. In that same Order, the Department also provides the definition of “payphone
19 lines,” stating that “the FCC unbundled payphone services from payphone equipment
20 and required that Local Exchange Carriers (“LECS”) provide PSPs with *basic*

1 *payphone lines that can be used for “smart” or “dumb” payphones on an*
2 *unbundled basis.” Id. at 4. (emphasis added).*

3 In compliance with that Order, Verizon MA submitted TSLRIC studies that
4 appropriately include *all* service offerings, elements or features available to payphone
5 service providers (“PSPs”). In the case of basic exchange access line offerings for
6 payphone service, the relevant service consists of Public Access Lines (“PALs”) and
7 Public Access Smart-pay Lines (“PASLs”). Verizon MA’s studies examine, on a
8 TSLRIC basis, the direct cost of providing a payphone specific line which, under a
9 long-run forward-looking network design architecture, consists of an integrated loop
10 and end-office switching port. The TSLRIC of the loop component is based on existing
11 payphone service specific loop characteristics, using outside plant engineering data for
12 all payphone line service locations and overlaying the forward-looking network design
13 for each service location. This approach addresses the Department’s requirements for
14 the loop component, to reflect payphone specific lines, rather than the mix of all lines
15 that are reflected in the TELRIC methodology for wholesale unbundled network
16 elements (“UNEs”).

17 Mr. Wood incorrectly argues that Verizon MA justifies its rates for one type of
18 payphone service offering (PALs) by using costs of what he terms as another
19 fundamentally different service (PASLs) - or a combination of both the PAL and PASL
20 offerings. Because Verizon MA developed its costs using “multiple” offerings or

1 elements of the total payphone service category, Mr. Wood characterizes the
2 Company's studies as a TMSLRIC (Total Multiple Services Long Run Incremental
3 Cost Study). His allegations are wrong.

4 Verizon MA appropriately calculated the TSLRIC cost of a payphone access line
5 based on the demand of payphone service lines that can be used either for PALs or
6 PASLs. Accordingly, the Department has the necessary and relevant information,
7 consistent with its Order requiring Verizon MA to provide a TSLRIC study for the
8 basic exchange access line that is specific to providing service to payphone locations, to
9 determine whether rates for payphone service are cost-based and satisfy the FCC's
10 "new services test".

11

12 **Q. PLEASE RESPOND TO MR. WOOD'S CONTENTION ON PAGE 6 OF HIS**
13 **FURTHER TESTIMONY THAT THE DEPARTMENT SHOULD**
14 **CONSIDER PALS AND PASLS AS TWO DISTINCT, SEPARATE AND**
15 **FUNCTIONALLY DIFFERENT SERVICES.**

16 A. Mr. Wood's argument is incorrect. PALs and PASLs are two types of payphone
17 service offerings, and both are appropriately included in Verizon MA's cost study of
18 payphone service. PALs and PASLs provide the same fundamental service used by
19 PSPs to provide payphone service to their end-user customers. While PASLs are used
20 by PSPs to provide payphone service using "dumb" payphones, both PASLs and

1 PALs are used by PSPs to provide payphone service using “smart” payphones. That
2 distinction is accounted for in Verizon MA’s cost studies.

3 Payphone service, whether using PALs or PASLs, can and does use the same local
4 loop. Mr. Wood does not dispute that fact, as noted on page 8 of his Further
5 Testimony. Thus, PALs and PASLs would incur the same basic loop costs.

6 Because PALs and PASLs provide the same fundamental payphone service, it would
7 be inappropriate to disaggregate basic payphone service loop costs at a sub-service
8 level, as suggested by Mr. Wood on pages 9-10 of his Further Testimony. This would
9 be analogous to requiring the disaggregation of business basic exchange lines based on
10 some sub-service level definition (*e.g.*, by broad categories, such as those serving
11 hotels, motels or other lodging establishments; manufacturing companies; or financial
12 institutions, etc.). Verizon MA does not differentiate business exchange lines by type of
13 business customer or business location because it is unnecessary to do so in order to
14 determine the relevant cost of loops used to provide business basic exchange line
15 service. The same is true for payphone basic exchange lines because all payphone
16 loops (*i.e.*, PALs and PASLs) provide the same fundamental payphone service to
17 payphone locations and possess the same basic loop characteristics. Therefore, the
18 Department should reject Mr. Wood’s argument to distinguish between PALs and
19 PASLs as payphone services.

1 **Q. PLEASE COMMENT ON MR. WOOD’S STATEMENT ON PAGE 5 OF HIS**
2 **FURTHER TESTIMONY THAT VERIZON MA’S TSLRIC LOOP STUDY**
3 **USES AN “AGGREGATION OF LOOPS” AND, THEREFORE, IS NOT**
4 **VALID FOR DEVELOPING THE COST OF PALS.**

5 A. As explained above, Verizon MA’s cost studies represent the cost for payphone access
6 lines based on their use as either PALs or PASLs. Contrary to Mr. Wood’s claims,
7 Verizon MA did not aggregate the number of loops for payphone services (*i.e.*, PALs
8 and PASLs), but rather conducted two separate studies to develop the distinct costs for
9 PALs and PASLs. Because the physical loop can be used for either type of payphone
10 service based on the electronics utilized, both studies include the *total* number of
11 payphone loops (*i.e.*, PAL and PASL) as the level of demand for the applicable
12 service-specific electronics. *See* BCAL Study, Part A and PAL Study, Part A-1 filed
13 January 29, 2001. This is consistent with the cost methodology used by the Company
14 in developing costs for Switch and Loop UNEs and approved by the Department in the
15 *Consolidated Arbitrations* proceeding (D.P.U./D.T.E 96-73/73, 96-75, 96-80/81,
16 96-83, 96-94). In that proceeding, Verizon MA developed costs for links based on
17 the total demand of links without regard for the service being placed on the link.

18

19 **Q. PLEASE COMMENT ON MR. WOOD’S ALLEGATION ON PAGES 6-7 OF**
20 **HIS FURTHER TESTIMONY THAT VERIZON MA ADMITS THAT PASL,**

1 **NOT PAL, DRIVES THE RESULTS OF ITS PAYPHONE SERVICES COST**
2 **STUDIES.**

3 A. Mr. Wood's allegations are totally unsubstantiated and are not based on any admissions
4 made by Verizon MA regarding its payphone service cost studies.

5 As stated above, Verizon MA disputes Mr. Wood's contention that "PASLs provide a
6 fundamentally different service with potentially different characteristics and costs."

7 While PASLs differ from PALs in that they require additional loop electronics for coin
8 functionality for use in conjunction with "dumb" sets, Verizon MA has reflected the cost
9 difference associated with the PASL "characteristics" in its TSRLIC study.

10 In Verizon MA's January 29, 2001, compliance filing, the Company conducted two
11 separate and distinct loop cost studies, one for Basic Coin Access Line ("BCAL"),
12 which is a PASL offering, and one for basic "non-coin" PAL/PASL loops. The BCAL
13 includes, as a bundled feature, a network-based coin control signaling function that is
14 used to signal the station equipment to collect or return deposited coins. This requires
15 different circuit equipment in the remote terminal ("RT") of the digital loop carrier
16 ("DLC") system for those lines.

17 Contrary to Mr. Wood's claims, there is no difference in basic loop costs to serve
18 payphone services using PALs or PASLs. The only cost difference between
19 PALs/PASLs and BCALs is an additional monthly cost of \$2.56 associated with the
20 incremental investment for utilizing coin cards in the RT to provide the BCAL **coin**

1 **functionality.** *See* Verizon MA January 29th Compliance Filing, Cost Narrative, at 2
2 and 3. Therefore, Mr. Wood’s claim that the inclusion of PASLs would skew the cost
3 study results is incorrect.

4 Likewise, Mr. Wood contends that PALs have shorter loop lengths and density
5 characteristics, but he provides no support for that comparison. In fact, Mr. Wood’s
6 prior testimony supports the opposite conclusion. The NEPCC previously admitted
7 that its members do not place their payphones solely at “business” sites, but at a variety
8 of locations throughout the state that are more distant or less dense than the average
9 loop. *See* Attachment I, containing the following exhibits from D.T.E. 97-88/18, Phase
10 II: NEPCC Exhibit 77; BA-MA Exhibit 30; and BA-MA Exhibit 42. Therefore,
11 Verizon MA’s cost studies are based on a reasonable assumption that the actual loop
12 length and density characteristics do not vary between PALs and PASLs, and there is
13 no basis for Mr. Wood’s claim that Verizon MA’s cost study results are skewed.

14

15 **Q. DOES VERIZON MA HAVE ANY EMPIRICAL DATA TO REBUT MR.**
16 **WOOD’S CLAIMS REGARDING THE DENSITY CHARACTERISTICS OF**
17 **PAYPHONE LOOPS?**

18 A. Yes. The following table compares the density zone distribution of the network access
19 lines used in Verizon MA’s 1997 TELRIC Loop Study to the density zone distribution

1 of the payphone access lines used in Verizon MA's payphone access line loop studies
 2 filed on January 29, 2001.

	<u>Network Access</u>		<u>Payphone Access</u>	
	<u>Lines (TELRIC)</u>	<u>%</u>	<u>Lines (TSLRIC)</u>	<u>%</u>
6 Metro	337,729	8%	4,332	9%
7 Urban	1,539,252	35%	18,105	38%
8 Suburban	2,241,721	51%	22,889	48%
9 Rural	257,059	6%	2,182	5%

10 The above table shows that the density zone distribution of payphone access lines
 11 derived from Verizon MA's TSLRIC payphone loop cost studies is comparable to the
 12 distribution of Network Access Lines from the Company's TELRIC Loop Study filed
 13 in the *Consolidated Arbitrations* proceeding.

14 As further support for the reasonableness of Verizon MA's position that PAL and
 15 PASL loops are similarly dispersed throughout density cells, payphone access line
 16 information was obtained from billing records as of August, 2001. The following table
 17 shows a very close relationship between the PAL and PASL access line distribution by
 18 density zone:

	<u>PAL Lines</u>	<u>%</u>	<u>PASL Lines</u>	<u>%</u>
21 Metro	653	7%	3,540	9%
22 Urban	3,148	33%	11,427	29%
23 Suburban	5,315	56%	21,997	57%
24 Rural	354	4%	1,846	5%
25 Total	9,470	100%	38,810	100%

1 The slight variance between the total number of payphone access lines in the above
2 table (48,280) and the original study (47,508) is due to different databases and time
3 frames for the queries. The loop cost study was based on the Company's Loop
4 Analysis Reporting and Tracking ("LART") database as of November, 2000. The
5 current analysis was extracted from actual billing records as of August, 2001, and is
6 summarized in Attachment II to this testimony.

7

8 **Q. PLEASE RESPOND TO MR. WOOD'S RECOMMENDATION THAT THE**
9 **DEPARTMENT REJECT VERIZON MA'S PROPOSED RATES AND**
10 **ADOPT NEPCC'S RATE PROPOSAL OF \$12.10 FOR A PAL BASED ON**
11 **MR. WOOD'S ALLEGATION ON PAGES 9-10 OF HIS FURTHER**
12 **TESTIMONY THAT VERIZON MA "CHOSE NOT TO DO" THE**
13 **CORRECT LOOP COST STUDY.**

14 **A.** As previously stated, Verizon MA performed the correct loop cost study in accordance
15 with the Department's Orders. Mr. Wood's claim that Verizon MA refused to comply
16 because special studies would be required to do so distorts the facts. The special
17 studies to which Mr. Wood refers include the separation of PAL loops from PASL
18 loops in order to develop the specific cost for each loop. Nothing in the Department's
19 Orders or the FCC's "new services" test requires Verizon MA to conduct such studies
20 to develop the information that NEPCC seeks. Indeed, Verizon MA has demonstrated

1 that its cost studies are in compliance with the Department's Order for basic payphone
2 lines that can be used for "smart" or "dumb" payphones. Therefore, the Department
3 should adopt Verizon MA's payphone loop cost studies, which produce TSLRIC loop
4 costs of \$12.01 and \$14.57 for "non-coin" PALs/PASLs and for BCALs, respectively.
5 Those costs support Verizon MA's existing PAL and PASL rates approved by the
6 Department.

7 In addition, Mr. Wood's overall proposed PAL *rate* of \$12.10 must be rejected
8 because it would not recover Verizon MA's direct cost, nor contribute to recovering
9 any overhead costs of providing a payphone line (*e.g.*, loop and line port costs).

10 **II. USE OF DIGITAL LINE PORT COSTS FOR TSLRIC PAYPHONE LOOP**
11 **STUDY**

12 **Q. PLEASE COMMENT ON MR. WOOD'S ARGUMENT ON PAGE 10 OF**
13 **HIS FURTHER TESTIMONY THAT VERIZON MA'S USE OF DIGITAL**
14 **PORT COSTS IS INCORRECT BECAUSE PAYPHONE SERVICE IS**
15 **PROVISIONED ON ANALOG LINES.**

16 A. While Verizon MA agrees that payphone lines are an analog service, Mr. Wood's
17 conclusion that a digital port would not be used with an analog service is inaccurate.
18 Mr. Wood's argument on pages 12-13 of his Further Testimony reveal an apparent
19 misunderstanding of the forward-looking network design architecture used to provide
20 analog basic exchange dial tone lines, including lines for payphone service in
21 Massachusetts, in a forward-looking TSLRIC study.

1 On page 11 of his Further Testimony, Mr. Wood states that Verizon MA's assumption
2 to use a digital port is "odd, since both PAL and PASL are analog, rather than digital,
3 services." Mr. Wood confuses the "service" with the "technology" used in provisioning
4 or providing that service. Verizon MA agrees that PALs and PASLs, like most POTS
5 services, are analog-based services. However, in today's environment for forward-
6 looking costs, all switches, interoffice and loop transmission systems are digital. Analog
7 signals that comprise analog services are converted to a digital signal for switching and
8 transmission. The "analog to digital" and "digital to analog conversion" does not,
9 however, convert analog services to end-to-end digital circuits, as Mr. Wood contends.
10 Indeed, if Mr. Wood's position were true, then Verizon MA would still need to
11 maintain analog *switches* to serve analog services. This is not the case.

12 The TSLRIC study examines the forward-looking cost of providing a **retail service**. It
13 is not a study of individual UNEs that can be purchased on a stand-alone wholesale
14 basis by Competitive Local Exchange Carriers ("CLECs") to be combined with their
15 own facilities to provide a competitive local service. Rather, the TSLRIC study
16 examines the cost of providing the already "bundled" retail service over a forward-
17 looking integrated loop and switch architecture where the local distribution component
18 of the loop is an analog facility that is converted to a digital format and multiplexed with
19 other lines at the DLC remote terminal for transport over a higher capacity feeder
20 facility between the RT and the central office switch. This higher capacity feeder facility

1 is integrated into the switch through a high capacity digital signal interface port in the
2 switch.

3 With the TSLRIC forward-looking network architecture for analog services, including
4 payphone service, all analog lines are provided over an integrated digital loop carrier
5 (“IDLC”) system in the feeder facility of the loop and integrated into the switch on a
6 high capacity digital port that is shared by those multiplexed lines. The circuit and
7 service remains analog on the loop distribution facility to the customer’s location and
8 network interface. Therefore, Verizon MA’s use of a digital line port cost based on the
9 forward-looking IDLC technology is reasonable and appropriate for payphone
10 services.

11

12 **Q. DO YOU AGREE WITH MR. WOOD’S ASSESSMENT ON PAGE 11 OF**
13 **HIS FURTHER TESTIMONY THAT “VERIZON MA IS NOW ARGUING**
14 **THAT THE DEPARTMENT’S 1997 TELRIC NETWORK DESIGN**
15 **CRITERIA MANDATE THE USE OF DIGITAL, RATHER THAN ANALOG**
16 **PORTS, IN ANY COST STUDY?”**

17 **A.** No. The Department did not “mandate” the use of digital, rather than analog, line ports.
18 Both analog and digital port costs were developed as UNEs in the 1997 TELRIC
19 study. However, in the *Consolidated Arbitrations* proceeding, the Department
20 adopted Verizon MA’s use of 100 percent *integrated* digital loop carrier (“IDLC”)

1 system as its forward-looking loop cost model for POTS-based services in the 1997
2 TELRIC study. This requires that a digital line port be compatible with the loop. Mr.
3 Wood recognized that fact on page 11 of his Further Testimony, in citing from Verizon
4 MA's Reply to NEPCC 1-10: "[I]n Verizon-MA's forward-looking network cost
5 model, all port investments (PAL or POTS) are based on integrated digital loop carrier
6 technology".

7 The Department adopted the IDLC cost methodology in the *Consolidated*
8 *Arbitrations* proceeding and more recently upheld that methodology in D.T.E. 98-57
9 III, in which the Department found that all of the network assumptions used in the
10 Company's cost studies must be consistent across all services or arrangements
11 contained in those studies. *See e.g.*, D.T.E. 98-57III-A, *Order*, at 35-36 (January 8,
12 2001). Accordingly, Verizon MA's use of a 100 percent IDLC network in developing
13 its PAL and PASL loop costs and corresponding digital line port is appropriate and
14 consistent with the Department's current cost methodology for POTS and other
15 services.

16

17 **Q. WHAT IS THE SIGNIFICANCE OF THE TERM "INTEGRATED" WHEN**
18 **APPLIED TO DIGITAL LOOP CARRIER?**

19 A Mr. Wood appears to use the terms Digital Loop Carrier ("DLC") and Integrated
20 Digital Loop Carrier ("IDLC") interchangeably. Both DLC and IDLC are digital

1 transmission systems used to multiplex multiple loops or lines onto one or more carrier
2 systems between the central office and a distribution point. However, DLC, which is
3 otherwise referred to as universal DLC (“UDLC”), differs from IDLC in that it de-
4 multiplexes the signal back down to individual channels before being switched or cross-
5 connected to other transmission systems. IDLC systems are directly connected to a
6 switch or transmission system at the digital level.

7

8 **Q. ARE THERE DIFFERENT REQUIREMENTS WHEN INTERFACING OR**
9 **CONNECTING UDLC AND IDLC SYSTEMS WITH THE SWITCH?**

10 A. Yes. UDLC systems interface with a switch by means of an analog line port and IDLC
11 systems interface with a switch by means of a digital line port. As stated above,
12 Verizon MA’s forward-looking TELRIC loop design model adopted by the
13 Department provisions POTS service (which would include PALs and PASLs) over
14 IDLC Systems. Accordingly, the IDLC systems used to provide, or transport these
15 services, interface or connect directly to the switch at a digital level, at a cost recovered
16 by the digital line port.

17

18 **Q. WHY DO ANALOG PORTS EXIST AT ALL IN THE UNE MATRIX**
19 **PROVIDED ON MARCH 19, 2001, IN VERIZON MA’S REPLY TO NEPCC**
20 **1-1?**

1 A. As discussed previously, Verizon MA's January 29th TSLRIC study is designed to
2 examine the Company's costs to provide an (already bundled) integrated **retail**
3 **services** (*i.e.*, payphone services). They are not UNEs, which are separate,
4 individually selected, stand-alone components or elements of the network used to
5 provide the retail basic exchange dial tone line.

6 In accordance with federal requirements, Verizon MA is legally obligated to make
7 UNEs available to requesting CLECs so that a CLEC may purchase an element, such
8 as an analog port, and then combine that UNE with its own analog facility to provide a
9 competing local service. Thus, Verizon MA is required to offer analog ports, including
10 the analog PAL line port, as a UNE at rates that should reflect the costs of providing
11 that UNE on a wholesale basis to CLECs under federal regulations.

12 Contrary to Mr. Wood's claims (page 16), Verizon MA's UNE *rates* would have no
13 bearing on the *costs* contained in its TSLRIC payphone study. That TSLRIC study
14 properly reflects the forward-looking network design of a "bundled" retail service and
15 includes the costs of a digital line port, which is compatible with the forward-looking
16 IDLC loop technology.

17

18 **III. OVERHEAD LOADING FACTORS FOR PAYPHONE SERVICES**

19 **Q. ON PAGE 21 OF HIS FURTHER TESTIMONY, MR. WOOD ALLEGES**
20 **THAT VERIZON MA HAS OVERSTATED THE DIRECT COSTS**

1 **ASSOCIATED WITH PAYPHONE SERVICES BECAUSE IT HAS**
2 **INCLUDED THE SAME OVERHEAD LOADING FACTORS USED FOR**
3 **RETAIL SERVICES. PLEASE COMMENT.**

4 A. Mr. Wood contends that Verizon MA should not have used standard Annual Carrying
5 Charge Factors (“ACCFs”) in its TSLRIC payphone services studies because ACCF
6 relates to outside sales and customer service activities that are unlikely to occur when
7 the Company provides payphone services to PSPs. Mr. Wood’s argument is incorrect.
8 Verizon MA’s ACCFs represent an “average expense to average investment”
9 relationship by expense and investment accounts. As recognized by Mr. Wood’s
10 Further Testimony (page 22, footnote 15), “it is reasonable to expect that Verizon MA
11 may incur some cost associated with customer service for PAL subscribers, but those
12 costs are unlikely to be as high as the average cost for residence or business retail
13 customers.”

14 It would be extremely difficult, if not impossible to quantify every particular expense
15 dollar by service. Even if this task could be accomplished, investments would also have
16 to be captured by service in order to develop a service-specific ACCF factor. Here
17 again, it would be difficult - if not impossible - to determine how much switch investment
18 is placed for each particular service. Thus, Verizon MA’s use of ACCFs that represent
19 *average* costs is a reasonable approach that is consistent with the Department-
20 approved cost methodology.

1 In addition, Mr. Wood's assertion that advertising costs should not be incurred when
2 providing PAL service is incorrect. There are many situations where PSPs will benefit
3 indirectly from advertising costs. For example, Verizon MA will provide educational
4 information relating to area code splits that benefit all customers, not just PSPs.
5 Therefore, it is appropriate for Verizon MA to include ACCFs in its payphone services
6 cost studies containing these types of costs.

7

8 **Q. DO YOU AGREE WITH MR. WOOD'S ASSERTION ON PAGE 22 OF HIS**
9 **FURTHER TESTMONY THAT VERIZON MA COULD VERY EASILY**
10 **HAVE REMOVED THE RETAIL-RELATED COSTS SIMPLY BY**
11 **"ZEROING OUT" THE CATEGORIES OF EXPENSES IN THE ACCF**
12 **SHEET AND RECALCULATING THE TOTAL?**

13 **A.** No. First, retail-related expenses are relevant and appropriate for use in developing the
14 costs for payphone access lines.

15 Second, it is not a simple matter of "zeroing out" lines on a spreadsheet. The retail-
16 related expenses are contained within the Network, Marketing, and Other Support
17 Expense components of each ACCF by Plant Account. *See Verizon MA's January*
18 *29, 2001, Compliance Filing, Attachment I, TSLRIC Cost Factors, Parts A and A-1,*
19 *Workpaper, Page 5 of 6.* As described above, because those components represent a
20 relationship of average operating expenses to average investments, "zeroing out" each of

1 these categories is completely wrong. That result would consist of investment-related
2 costs only (*e.g.*, cost of money, depreciation, taxes).

3 Finally, even “zeroing out” the underlying expense data would be incorrect because it
4 would not capture applicable retail related expenses, as discussed above. To develop a
5 truly service-specific ACCF, Verizon MA would need to capture all of the retail-related
6 service-specific expense, along with the corresponding service-specific investments.

7 Even if this could be accomplished, it would require an “overly burdensome, manual
8 work effort,” as indicated in Verizon MA’s Reply to NEPCC 2-23. Thus, the ACCF is
9 a reasonable and accepted method of reflecting direct expense factors, on an averaged
10 basis, in the Company’s cost studies.

11

12 **Q. PLEASE COMMENT ON MR. WOOD’S RECOMMENDATION THAT**
13 **VERIZON MA SHOULD ONLY BE PERMITTED TO INCLUDE IN ITS**
14 **RATE FOR DIRECT DIAL SCREENING THE LEVEL OF OVERHEAD**
15 **COSTS IT HAS DEMONSTRATED TO BE REASONABLE, WHICH HE**
16 **CLAIMS IS ZERO.**

17 A. Verizon MA strongly disagrees with Mr. Wood’s proposal, which would, in effect,
18 establish the rate for Direct Dial Screening at the level of its direct cost with no
19 allowance for an overhead loading. This is unreasonable and inconsistent with the

1 FCC's pricing requirements, and contradicts Mr. Wood's prior testimony in Phase II of
2 this proceeding.

3 In that testimony, Mr. Wood stated that the FCC pricing standard includes mark-ups
4 over the direct costs for overhead loadings as part of the rate for payphone features and
5 functions. *See* NEPCC Exhibit 1 (D. Wood Direct Testimony, at 46, dated July 16,
6 1999). Indeed, although Mr. Wood previously considered a 35% overhead loading as
7 reasonable in Phase I of this proceeding, he unjustifiably reduces that factor to zero
8 here.

9

10 **Q. MR. WOOD STATES THAT VERIZON MA'S RELIANCE ON PRIOR FCC**
11 **PROCEEDINGS TO SUPPORT ITS OVERHEAD LOADING FACTOR FOR**
12 **PAYPHONE FEATURES IS INCORRECT. DO YOU AGREE WITH HIS**
13 **CONCLUSIONS?**

14 **A.** No. Verizon MA has reasonably relied on the FCC's findings in its payphone
15 investigation (CC Docket No. 97-140, *In the Matter of Local Exchange Carriers'*
16 *Payphone Functions and Features*) to establish an appropriate range of overhead
17 loadings. However, while the FCC found payphone service rates that were 3.4 to 4.8
18 times their direct cost to be reasonable, the Company is not advocating that the Direct
19 Dial Screening rate be established at those rate-to-cost levels. *See* Verizon MA's
20 Reply to NEPCC 2-14. Rather, Verizon MA's rate of \$2.50 is 2.81 times the direct

1 costs, which is well within – and actually below the lower bounds of the range found
2 acceptable by the FCC.

3 Contrary to Mr. Wood’s claims, if the FCC did not want these overhead loadings to be
4 considered as a reasonable range for other payphone features and functions, it would
5 have clearly stated that intention. Instead, as Mr. Wood acknowledged on page 18 of
6 his testimony, the FCC limited the application of these overhead loadings to “other
7 services” – a term that Verizon MA believes was intended to mean other *non-*
8 *payphone* services. *See* Verizon MA’s Reply to NEPCC 2-14. This is a reasonable
9 interpretation of the FCC’s orders given that the context of the FCC’s investigation
10 dealt with rates for local exchange carrier payphone features and functions, including the
11 Direct Dial Screening feature at issue here.

12 In addition, on page 18 of his testimony, Mr. Wood also tries to refute Verizon MA’s
13 use of the FCC approved rate-to-cost ratios for payphone features and functions on the
14 assumption that the FCC intended to limit the applicability of these ratios to payphone
15 features and functions that have very low or zero rates. Mr. Wood, however, ignores
16 the fact that the FCC also *approved* the \$2.50 rate for Direct Dial Screening as
17 originally filed in the effective NYNEX interstate FCC No. Tariff 1, and which is now
18 contained in Verizon’s interstate FCC Tariff No. 11. That interstate rate is identical to
19 the intrastate rate for Direct Dial Screening under DTE Tariff No. 10.

20

1 **IV. METHODOLOGY FOR TSLRIC PAYPHONE LOCAL USAGE STUDIES**

2 **Q. DO YOU AGREE WITH MR. WOOD'S CONCLUSION THAT VERIZON**
3 **MA'S LOCAL USAGE TSLRIC STUDY DOES NOT COMPLY WITH THE**
4 **DEPARTMENT'S ORDER BECAUSE IT DOES NOT REFLECT A COST**
5 **FOR LOCAL USAGE THAT IS SPECIFIC TO PAL LOCAL USAGE?**

6 A. No. The methodology used by Verizon MA in its TSLRIC payphone local usage study
7 is consistent with the long-standing cost methodology approved by the Department and
8 used by the Company in prior cost studies to determine the unit costs of a minute of
9 local usage. Costs were developed in this manner in the Company's TELRIC study
10 adopted in the *Consolidated Arbitrations* proceeding, as well as in a series of marginal
11 cost studies (*i.e.*, MCS III, MCS IV, MCS V, MCS VI) submitted previously by the
12 Company in filings, dating back to 1989. In all of those studies, a minute of use cost in
13 Verizon MA's network is the same for all services using the network. Thus, the unit
14 cost for a minute of local usage is based on the *entire* increment of local usage that uses
15 the local switching and transport facilities and causes those costs to be incurred. From
16 those unit costs, Verizon MA then develops service-specific costs by applying service-
17 specific characteristics that reflect the manner in which the service utilizes those unit
18 costs.

19 Because there is no distinction between the cost of local usage across Verizon MA's
20 various service categories, Verizon MA examined the level of local usage traffic from

1 payphones (*e.g.*, PALs and PASLs). Therefore, in its September 7th TSLRIC study,
2 the usage cost element is developed by basically dividing the total cost of the element by
3 the total traffic usage of the element.

4 An example is an interoffice trunk between end offices. The trunk will carry traffic from
5 many different services. Assuming that Verizon MA undertook a special usage study to
6 determine just what percentage of payphone access line traffic the trunk group was
7 carrying, the same percentage would be allocated to the total cost of the trunk. Dividing
8 the allocated cost by the payphone specific traffic usage would produce the same
9 minute-of-use-cost.

10 In addition, contrary to Mr. Wood's claims, the local usage TSLRIC study for
11 payphone service should not be limited to local usage costs of PALs, which are only a
12 sub-element of payphone service. As discussed above and in Verizon MA's Direct
13 Testimony, both the Company's payphone loop cost study and its local usage TSLRIC
14 study are consistent with the Department's Orders requiring Verizon MA to develop
15 *payphone service* specific costs for local usage. The Company's TSLRIC usage study
16 supports charging PSPs the same basic rates for local usage that are in effect today and
17 apply to all other business customers.

18 Treating PSPs as a sub-class of business service customers is appropriate and
19 consistent with the current structure approved by the Department and does not conflict
20 with the FCC's *Payphone Orders* as these existing approved rates satisfy the "new

1 services test” requirement. Therefore, no rate change is required.

2 Likewise, there is no basis for disaggregating or differentiating between payphone

3 service local usage costs or rates based on whether the PSP uses a PAL or PASL. As

4 discussed above, this would be analogous to requiring that Verizon MA develop

5 separately rates and costs for business services based on some distinction regarding the

6 type of end-user customer, *e.g.*, hotels, motels and inns or manufacturers, financial

7 institutions, lodging providers or some other category.

8 Finally, it should be noted that the peak/off-peak local usage characteristics for

9 payphone service used as direct cost inputs in Verizon MA’s “new services test” reflect

10 measured usage characteristics specific to PALs because that data was the only

11 payphone service specific local usage information that was readily available at the time

12 the cost analysis was conducted.

13

14 **Q. ON PAGE 21 OF HIS FURTHER TESTIMONY, MR. WOOD CRITICIZES**

15 **VERIZON MA’S STATEWIDE APPLICATION OF PAL USAGE**

16 **CHARACTERISTICS BECAUSE IT IS BASED ON PEAK AND OFF-PEAK**

17 **MINUTES FOR THE WESTERN MASSACHUSETTS LATA. PLEASE**

18 **RESPOND TO HIS STATEMENTS.**

19 A. Contrary to Mr. Wood’s claims, Verizon MA’s assumption that the peak and off-peak

20 distribution of local usage for payphone services are comparable in the Eastern and

1 Western Massachusetts LATAs is a reasonable one. There are no discernable factors
2 that would lead to a conclusion that there might be significant variances in peak and off-
3 peak local usage relationships between the two LATAs. In fact, since completing its
4 September 7th usage study and in light of the issue raised in Mr. Wood's further
5 testimony, Verizon MA has discovered some archived June 1998 PAL local usage data
6 that substantiates the Company's usage assumptions.

7 The June 1998 data, which is contained in Attachment III of this testimony, examines
8 local call connect times for PALs in both the Eastern and Western Massachusetts
9 LATAs. The results show that for both Massachusetts LATAs, 58% of minutes for
10 local calls from measured PALs began in the peak period and 42% began in the off-
11 peak period. This closely corresponds to the June 2001 billing data relied on by
12 Verizon MA for peak and off-peak local usage distribution used in its TSLRIC direct
13 cost inputs for the "new services test" described in Mr. Shepherd's Direct Testimony.
14 Based on the June 2001 data, 57% of measured local usage for PALs in the Western
15 LATA occurred in the peak period, and 43% occurred in the off-peak period. The fact
16 that the peak/off-peak distribution levels for PAL local usage does not vary significantly
17 in these studies substantiates Verizon MA's use of the Western Massachusetts LATA
18 local usage distribution data in its analysis as also representative of Eastern LATA local
19 usage characteristics for PALs.

1 **Q. ON PAGES 21-22 OF HIS TESTIMONY, MR. WOOD CRITICIZES THE**
2 **SEPTEMBER 7th LOCAL USAGE TSLRIC COST INPUTS BECAUSE**
3 **VERIZON MA'S TSLRIC STUDY PRODUCES A COST THAT IS 40%**
4 **GREATER THAN PRIOR COSTS PRESENTED BY THE COMPANY IN**
5 **ITS REPLY TO NEPCC 1-13, DATED JUNE 3, 1999, BASED ON NEW**
6 **ASSUMPTIONS REGARDING LOCAL USAGE. PLEASE COMMENT.**

7 **A.** As explained in Verizon MA's Reply to NEPCC 2-43, the costs in the Company's
8 Reply to NEPCC 1-13 (NEPCC Exhibit 14) relied on several *simplifying* assumptions
9 to develop a cost for local payphone service usage. For instance, in that cost analysis,
10 which supports the Company's revised Exhibit IV to its January 26, 1998 Comments
11 (filed February 6, 1998),¹ the Company only recognized network-related costs for an
12 originating and terminating local switching minute. It did not recognize any costs for
13 interoffice transport or tandem usage. Thus, only those network costs for an intraoffice
14 local call were represented. That cost analysis did not depict the comprehensive
15 TSLRIC for local payphone service usage that the Department required Verizon MA to
16 study in its *November 28th Order*.

17 The revised Exhibit IV cost data, as reflected in the Company's Reply to NEPCC 1-
18 13, was only intended to provide some guidance at that time regarding the relative
19 relationship between local usage rates and an indication of the level of cost for local

¹ Attachment IV to this testimony includes NEPCC Exhibit 14 and the Company's February 6, 1998, revision to its Exhibit IV cost data.

1 usage. Clearly, it would be unreasonable to exclude any costs for interoffice local calls
2 in a comprehensive TSLRIC of local usage, as Mr. Wood erroneously suggests.
3 Another difference is that the Company's Reply to NEPCC 1-13 only addressed a
4 network-related cost for local switching and did not include other direct costs of
5 providing payphone service. Here again it would be unreasonable to only include
6 network-related costs and *not* include or attribute any other direct costs of providing
7 payphone service in a comprehensive TSLRIC local usage study. As explained in Mr.
8 Miller's Direct Testimony (pages 2-4), Verizon MA's TSLRIC local usage study for
9 payphone service appropriately accounts for these costs.

10

11 **Q. MR. WOOD QUESTIONS THE DISCREPANCY BETWEEN THE**
12 **COMPANY'S ASSUMED COST FOR UNLIMITED FLAT-RATED PAL**
13 **LOCAL USAGE IN ITS FEBRUARY 1998 FILING AND THE COST DATA**
14 **PRESENTED IN VERIZON MA'S SEPTEMBER 2001 COMPLIANCE**
15 **FILING. WOULD YOU PLEASE EXPLAIN THE NATURE OF THOSE**
16 **DIFFERENCES?**

17 **A.** As explained in the Company's Reply to NEPCC 2-43, Verizon MA has followed the
18 same basic methodology in both filings to determine the usage levels where the charges
19 for measured local usage and unlimited local usage would be equal. This represents the
20 cross-over point where charges for lower levels of local usage would be less on

1 measured usage basis than on an unlimited basis. At greater levels of local usage,
2 charges determined on a measured basis would be greater than the flat-rated charge for
3 an unlimited service offering.

4 As explained in Mr. Shepherd's Direct Testimony, the Company selected these usage
5 levels to *estimate* the cost for unlimited PAL local usage because actual usage data on
6 unlimited PALs is not captured. The differences between the usage cost levels in the
7 Company's February 1998 and September 2001 filings are attributable to two factors.
8 First, as explained in the preceding question, the Company's estimate of local usage
9 costs in its January 26, 1998 Comments in this proceeding was based on several
10 simplifying assumptions, resulting in an understatement of the actual cost for local usage.
11 Second, measured local usage rates have been reduced since the Company's 1998 cost
12 analysis, and the unlimited rate has increased, thereby raising the price cross-over point
13 between measured and unlimited rates.

14 Because the unlimited PAL service offering is optional and discretionary, some PSPs
15 may choose the unlimited PAL rate to "cap" their charges for local usage. Conversely,
16 other PSPs with lower usage levels may opt to pay a lower measured based rate, rather
17 than this "capped" amount, to effectively reduce their local usage charges. Accordingly,
18 Verizon MA's method of determining the unlimited PAL local usage cost in its TSLRIC
19 study is a reasonable approach given the relationship between measured and unlimited
20 usage rates.

1

2 **V. APPLICATION OF PAYPHONE RATE REFUNDS**

3 **Q. DO YOU AGREE WITH MR. WOOD’S ASSERTION THAT VERIZON MA**
4 **SHOULD BE REQUIRED TO ISSUE REFUNDS BECAUSE ITS EXISTING**
5 **RATES DO NOT SATISFY THE FCC “NEW SERVICES TEST”?**

6 A. No. Verizon MA has demonstrated that its existing payphone basic exchange and
7 usage charges, which are priced at the same levels as business rates, comply fully with
8 the FCC’s requirements. As explained above and in Verizon MA’s Direct Testimony,
9 the Company’s cost study results substantiate the reasonableness of the Department’s
10 previously approved rates for payphone services in applying the FCC’s “new services”
11 criteria. By contrast, Mr. Wood has presented no cost study to support his proposal
12 for determining appropriate TSLRIC costs and overhead loadings for basic exchange
13 lines, Direct Dial Screening or local usage for payphone service. Therefore, contrary to
14 Mr. Wood’s claims, a rate refund is not warranted.

15 Alternatively, if the Department were to require changes to payphone service rates in
16 Massachusetts, there is *no* requirement that the Department require rate refunds. In
17 order to authorize a refund, a state commission must find that its previously approved
18 rates did not comply with FCC requirements. Although a few states (*i.e.*, Delaware,
19 West Virginia, Maryland, Indiana) have made such a finding, other states (*e.g.*,
20 Colorado) have not.

1 For instance, the Colorado Public Utilities Commission found that the existing approved
2 rates were not in violation of the federal requirements but directed US West to reduce
3 its unlimited payphone service rate to the same level as the unlimited rate for two-way
4 business trunks and did not require US West to make any rate refunds. In addition to
5 Colorado, Verizon is aware of other decisions in which commissions have found that the
6 incumbent local exchange carrier's existing payphone rates are in compliance with the
7 FCC "new services test." *See e.g.*, District of Columbia, Kentucky, Michigan, New
8 York, North Carolina, Delaware and Indiana (as it relates to local usage). Accordingly,
9 the Department should reach the same conclusion in this proceeding, and reject
10 NEPCC's argument for rate refunds.

11

12 **Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?**

13 **A. Yes.**